



REPORT BY THE  
DEPARTMENT OF FISH & GAME  
AUDITS BRANCH

WA-07-16

AUDIT OF  
MARINE REGION – LOS ALAMITOS  
(LICENSE SALES FUNCTION)

FEBRUARY 2009

## Memorandum

To: Marija Vojkovich, Regional Manager  
Marine Region

Date: February 13, 2009

From: Brian A. Kwake  
Department of Fish and Game

Audit Control Number  
**WA-07-16**

Subject: Final Audit Report - Marine Region's License Sales Function

Attached is the final audit report for the Marine Region – Los Alamitos Office's (MR-LAO) license sales function for the period June 1, 2006 through December 31, 2008. The audit was conducted under the authority of the Audit Branch's (AB) charter that established the AB as the unit responsible for conducting audits of the operating systems and programs of the Department of Fish and Game. The audit was performed in accordance with the *International Standards for the Professional Practice of Internal Auditing* as required by the California Government Code, Section 1236.

MR-LAO's response to the report generally agrees with our audit findings and recommendations. The Audits Branch (AB) incorporated the Department's response as Attachment A to this report.

We would like to thank the MR-LAO staff for their time and cooperation. Should you have any questions, please contact Scott Marengo at (916) 445-3367.

### Attachment

cc: J. McCamman  
H. Carricker  
H. Kiyan  
J. Fong  
L. Phelps  
L. Faulkner

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# SUMMARY

The Department of Fish and Game's (DFG) Audits Branch (AB) performed an audit of the Marine Region - Los Alamitos Office's (MR-LAO) license sales function. The audit was conducted to determine whether controls over the license sales function were adequate to ensure sales transactions were properly recorded, reported, and sales revenue was deposited, and whether the internal controls were adequate to ensure accountability for its consigned inventories of licenses, permits, tags, and stamps. The audit found the internal control structure over the license sales and inventory functions to be adequate, except for inadequate separation of duties and the semi-annual reconciliation of license inventory is not performed.

# FOLLOW-UP ON PRIOR AUDIT FINDINGS

On August 16, 2005, the AB issued audit report number WA 04-16 on MR-LAO's license sales function. We followed-up on the findings in this report to determine these prior finding had been fully resolved. The findings related to inadequate separation of duties, improper review of bank deposits, inadequate prelisting procedures and change fund not reconciled. Based on our follow-up, we determined that the MR-LAO adequately address their bank deposit, prelisting and change fund procedures but continues to have issues over maintaining adequate separation of duties (Finding 2).

# BACKGROUND

The DFG has 11 regional and field offices that offer license sales to the public. The License and Revenue Branch (LRB) sales manual provides the DFG offices instruction on license issuance, deposit, accounting, cashiering, and reporting requirements. The License Agent System (LAS) provides a method of accounting for the sale of various licenses, permits, stamps, and other items distributed by the LRB. Part of this LAS function is the actual distribution of the various items of inventory maintained by the LRB.

Under the authority of the AB charter, the AB has initiated audits of the DFG's license sales at the 11 regional and field offices in order to provide management reasonable, but not absolute, assurance that the DFG offices are in compliance with laws relating to the sale of commercial and sport licenses. As part of this process, the MR-LAO was selected for audit.

# SCOPE, METHODOLOGY, AND OBJECTIVES

The DFG's AB audited the MR-LAO's license sales function for the period June 1, 2006 through December 31, 2008. Our audit was conducted in accordance with *Governmental Auditing Standards* issued by the Comptroller General of the United States and the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, Inc.

Our study and evaluation included a review of applicable laws and regulations, as well as regional sales and inventory records. Audit tests and other audit procedures considered necessary to meet audit objectives were included. These tests consisted of documenting the cash and inventory internal controls, identifying control strengths and weaknesses, performing compliance testing of the license sales functions, verifying inventories, documenting and evaluating adequate separation of duties.

The objectives of the audit were to provide DFG's management with reasonable, but not absolute, assurance that:

- Controls over the license sales functions were adequate to ensure that sales transactions were properly authorized, supported, recorded, and deposited.
- Controls were adequate to ensure accountability of inventories assigned to the office and inventories consigned to the individual sales clerks.



# CONCLUSION

In our opinion, the MR-LAO has properly recorded, deposited, reported license revenue, and accounted for inventory valued at \$3,598,237 for the period June 1, 2006 through December 31, 2008. The internal control structure over cash receipts and inventory at the MR-LAO in effect at December 31, 2008, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the license sales inventory, except for the weakness described in the Findings and Recommendations Section of this audit report.

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Brian A. Kwake, Chief  
Audits Branch

February 13, 2009

Audit Staff: Scott Marengo, Auditor

**FINDINGS**

**AND**

**RECOMMENDATIONS**

## **FINDING 1      Semi-Annual Reconciliation of License Inventory**

The MR-LAO does not perform semi-annual reconciliations of license inventory. Consequently, our audit disclosed \$407.50 worth of missing inventory which MR-LAO needed to write off with LRB through the declaration process.

The LRB office memorandum number 01-02, dated February 19, 2002, states that the LRB will provide DFG license sales offices with a statement of all consigned inventory semi-annually. The statement is to be compared against a physical count of all inventory consigned to the office semi-annually, and is to be done by an independent third party who does not order, receive, consign, maintain or sell inventory.

The MR-LAO was unaware of this requirement. Without reconciliations, there is no assurance that consigned inventory is accounted for and is current.

### **RECOMMENDATION**

The MR-LAO should conduct the Semi-Annual Physical Inventory of its assigned inventory. This reconciliation should be performed by someone other than the inventory custodian, counter sales personnel, or the person receiving the inventory shipments. If the Semi-Annual Inventory Statement is not received for the April and October periods, the MR-LAO should contact the LRB and request a copy of the statement for the purpose of completing the semi-annual reconciliation.

MR Response:    The MR-LAO will conduct semi-annual physical inventory of its assigned inventory performed by someone not currently associated with the license sales function.

AB Comments:    The AB concurs with the MR-LAO response.

## FINDING 2     INADEQUATE SEPARATION OF DUTIES

We observed that only 14 of 38 sampled license inventory shipment invoices contained outside verification of such inventory from the person making the order. In the other 24 instances, the person ordering the inventory was also the same person receiving that inventory from LRB.

The State Administrative Manual (SAM) Section 8080 requires each department maintain an adequate system of internal control which includes separation of duties. The Department of Fish and Game *Cash Register and Cash Transfer Policies and Procedures* Manual (DFG Procedures Manual) section on Internal Checks and Balances, page 1 requires a separation of duties appropriate for proper safeguarding of assets.

The MR-LAO Office is short-staffed and occasionally has difficulty maintaining adequate separation of duties. However, without proper separation of duties, DFG is at increased risk that errors or irregularities could go undetected, therefore putting State assets at risk.

### RECOMMENDATION

The MR-LAO should ensure that a secondary verification be performed on all incoming inventory shipments to be in compliance with both SAM and the DFG Procedures Manual.

MR Response:     The MR-LAO will ensure that we consistently perform a secondary verification on all incoming inventory shipments.

AB Response:     The AB concurs with the MR-LAO response.

# **ATTACHMENT A**

State of California



## Memorandum

**Date:** February 10, 2009

**To:** Brian A. Kwake, Chief  
Audits Branch  
Department of Fish and Game

**From:** Marija Vojkovich *Marija Vojkovich*  
Regional Manager  
Marine Region

**Subject:** Audit of the Marine Region License Sales Function, Los Alamitos Office (MR-LAO)  
(Audit Control Number **WA-07-16**)

Thank you for your January 6, 2009 memo and draft audit report for the Marine Region's license sales function for the period June 1, 2006 through December 31, 2008 of our Los Alamitos office. We appreciate the opportunity to provide our response to the draft report so that our comments can be incorporated into the final audit report. As a result of the audit findings we have implemented changes consistent with the audit recommendations. The specific changes we have implemented are outlined below.

### **Finding 1-Semi-Annual Reconciliation of License Inventory**

The MR-LAO will conduct semi-annual physical inventory of its assigned inventory performed by someone not currently associated with the license sales function. We have assigned this to an Office Technician within the Los Alamitos office and have also designated an individual within the Marine Fisheries Statistical Unit as a back-up. MR-LAO will also work with LRB to obtain the needed statements. The license sales supervisor has already contacted LRB to discuss how best to perform the reconciliation and how to obtain the needed reports.

### **Finding 2-Inadequate Separation of Duties**

MR-LAO will ensure that we consistently perform a secondary verification on all incoming inventory shipments. This will be performed by a retired annuitant currently working at our license sales counter with the license sales supervisor as the back-up.

If you have any questions, please contact Lenore Phelps, Administrative Officer III at (916) 651-7671.

cc: Lenore Phelps  
Department of Fish and Game  
Sacramento, CA